
OPEB Commission

September 25, 2012



Agenda

I. Approval of minutes of July 18, 2012 meeting

II. Discussion of content and development of final report

- a. Brief review of work done to date
- b. Basic principles

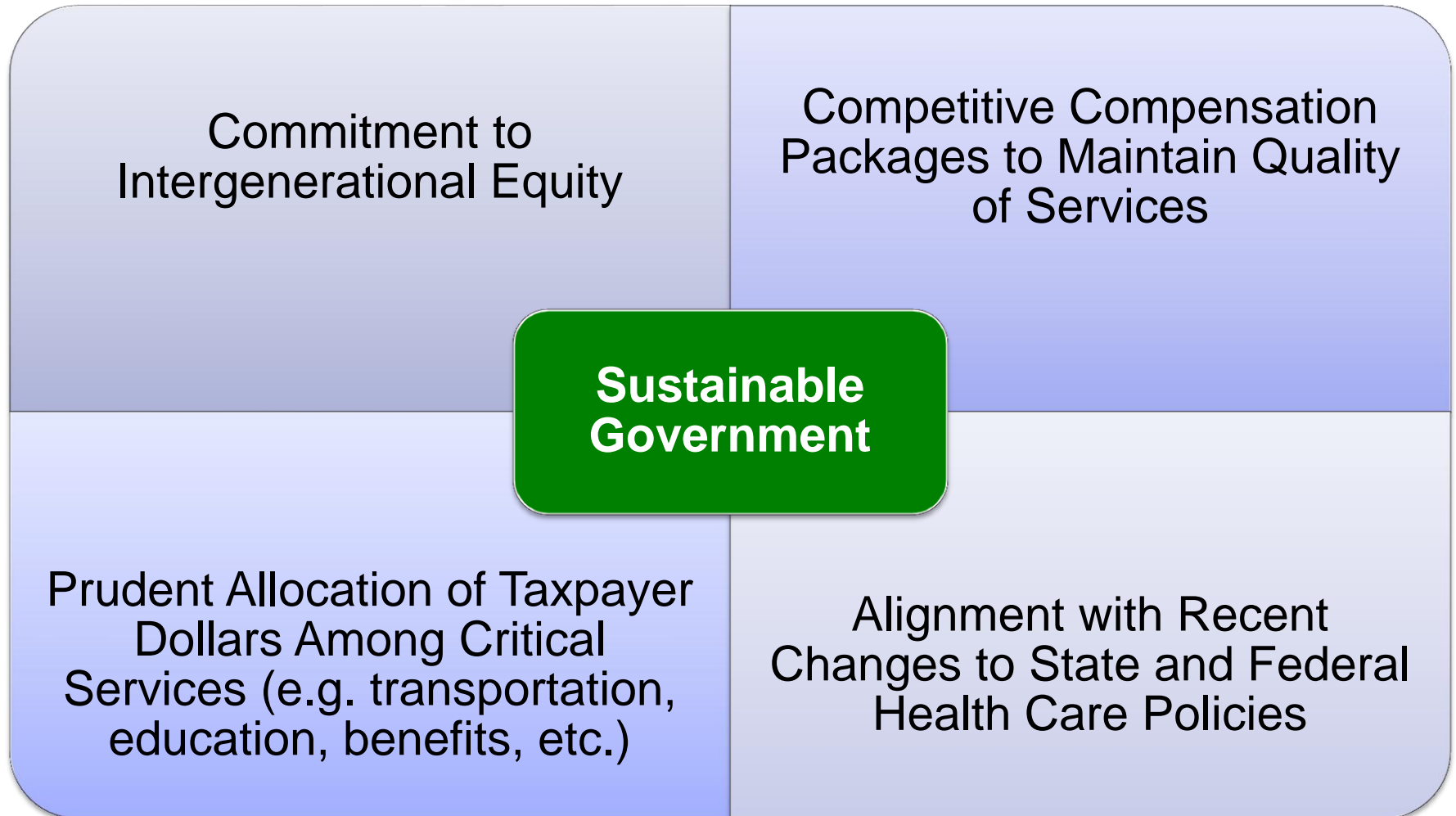
III. Next step: Actuarial analysis

- a. Review procurement process
- b. Summarize approach and timeline going forward
 - Phase 1: Impact of individual changes (to be presented in October)
 - Phase 2: Specific scenarios with combinations of changes (to be discussed in October, presented in November)
- c. Discuss key assumptions

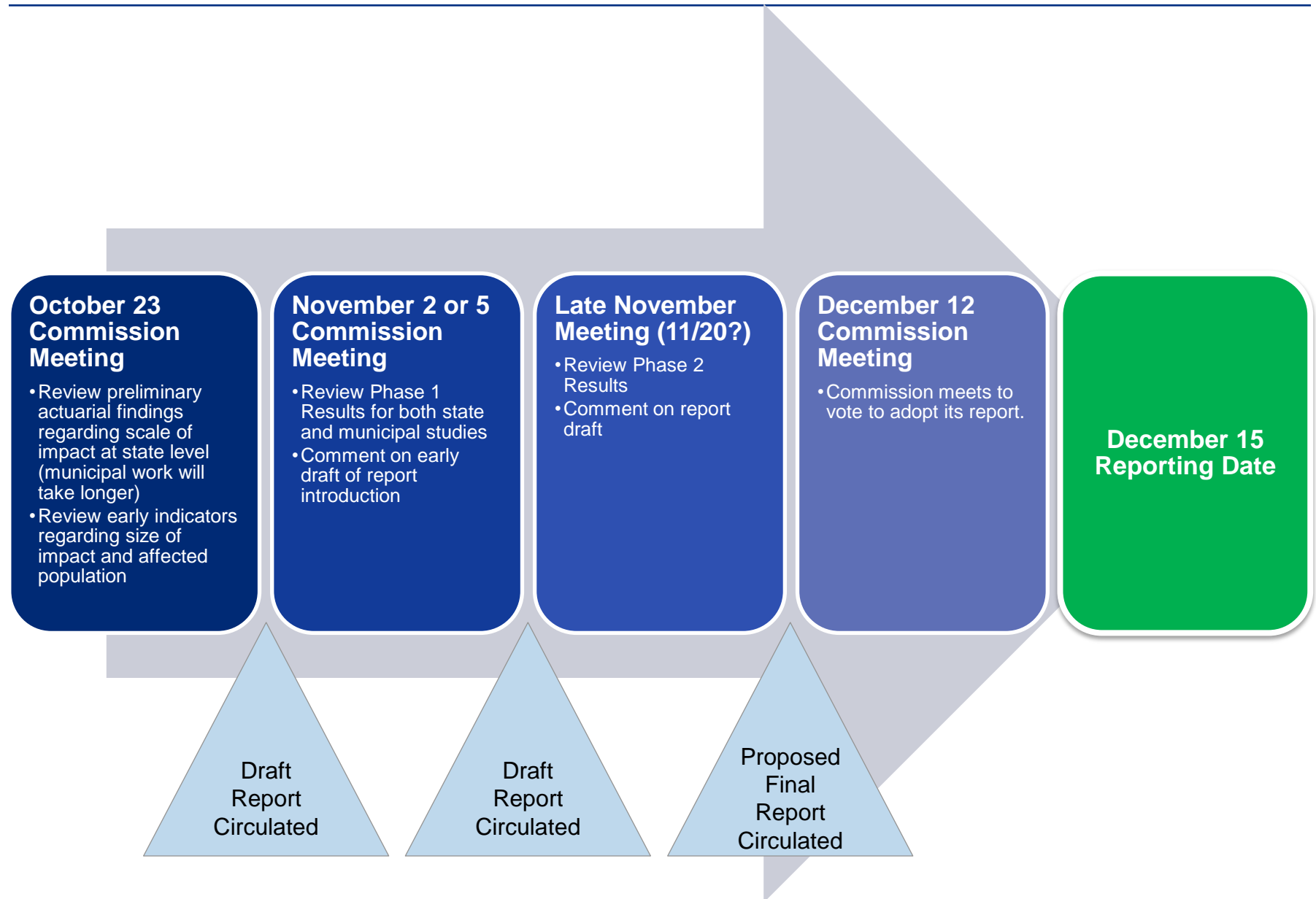
IV. Supplemental Information

V. Adjournment

Proposed Principles and Considerations



Proposed Process and Calendar



Procurement Process

- The Procurement Sub-Committee (Greg Mennis, Daniel Morgado, and Andrew Powell) selected Aon Hewitt to perform the state-level analysis and Segal to perform the municipal-level analysis.
 - Tom Vicente will serve as the project lead for Aon Hewitt.
 - Kathleen Riley will serve as the project lead for Segal.
- The actuarial analysis will consist of two phases:
 - Phase 1:
 - The consultants will review the individual impact of seven changes to eligibility, two changes to pro-rate retiree premiums based on service, and four changes to limit cost growth (see next slide for details). Each change will be considered separately if applied to new retirees only and to new hires only. The consultants will estimate the impact of the changes on 30-year projections of cash-flow, normal cost, and liabilities.
 - Additional information requests include estimating the impact of employee/employer contributions to the state's investment trust for retiree health benefits; the adoption of an Employee Group Waiver Insurance Plan; expanded coverage for surviving spouses; and the health care cost containment targets included in recent legislation.
 - Phase 2:
 - The consultants will review up to ten additional scenarios designed to reflect combinations of proposed reforms and/or various grandfathering provisions.

Procurement Process: Phase 1

Change eligibility for retirement

- Increase minimum age for retiree health benefits by 5 years (above the minimum eligible retirement age for pensions; e.g. from 55 to 60 for most current Group 1 employees)
- Increase minimum age for retiree health benefits by 7 years
- Increase minimum age for retiree health benefits by 10 years
- Increase minimum years of service for retiree health benefits to 15
- Increase minimum years of service for retiree health benefits to 20
- Increase minimum years of service for retiree health benefits to 25
- Increase eligibility for retiree health benefits to 30 years at the minimum retirement age or 15 years at 5 years above the minimum retirement age

Pro-rate benefits

- 50% of Total Premium at 15 Years; annual pro-rated increases to reach 100% of the Maximum Available Benefit (MAB) at 25 Years
- 50% of Total Premium at 20 Years; annual pro-rated increase to reach 100% of the MAB at 35 Years.

Limit cost growth

- Limit growth in employer subsidy to the rate of inflation
- Limit growth in the employer subsidy to the midpoint between inflation and health care inflation
- Limit growth in employer subsidy for Pre-65 retirees to the rate of inflation
- Limit growth in employer subsidy for Pre-65 retirees to the midpoint between inflation and health care inflation

OPEB Commission

Supplemental Information

September 25, 2012



Table of Contents

This document includes a summary of key findings and references to other documents in response to requests for additional information that were raised in previous commission meetings.

1. Private Sector Policies
2. Premium Contributions in Other States
3. Retiree Surviving Spouse Coverage
4. Part-Time Policies
5. VEBA
6. EGWP
7. Appendix: Additional Sources

Private Sector Policies

- In 2011, 8.2% of Massachusetts private sector establishments offered health benefits to early retirees (under 65) and 7.4% offered benefits to Medicare-eligible retirees (65 and over). This represents a decline from 2001, when 10.5% of private sector establishments offered health benefits to early retirees and 9.4% offered benefits to Medicare-eligible retirees.¹
- National data show that large employers are much more likely to offer retiree health benefits than small employers. In 2008, 36% of establishments with 1,000 or more workers offered health benefits to early retirees and 31% offered benefits to Medicare-eligible retirees. In comparison, only 8% of establishments with 100-999 employees offered health benefits for either early retirees or Medicare-eligible retirees.²
- In recent decades, private sector employers have made eligibility requirements for retiree health benefits more stringent. Among private sector establishments with 1,000 or more workers, the percentage requiring an age of 55 and at least 10 years of service has increased from 30% in 1996 to 37% in 2009.²
- In addition, most private sector employers that offer retiree health insurance benefits contain costs by requiring employees to pay the full cost of their premiums or to pay for any increases in premiums above a fixed dollar cap.²

Percentage of Private Sector Employers who Offer Insurance		
Measure	Early Retirees	Medicare-Eligible Retirees
Employee pays full premium	46%	41%
Defined dollar cap	27%	32%
No defined dollar cap	26%	26%

1. Medical Expenditure Panel Survey Table II.A.2.e; <http://meps.ahrq.gov/mepsweb/>

2. http://www.ebri.org/pdf/briefspdf/EBRI_IB_01-2010_No338_Ret-Hlth.pdf

Premium Contributions in Other States

- ANF analyzed employer contributions to non-Medicare premiums in 40 states.¹
 - 16 states subsidize a percentage of the premium, with maximum subsidies ranging from 80-100%.
 - 9 states provide a fixed dollar subsidy, with maximum subsidies ranging from \$105-\$638 per month (\$1,260-\$7,658 annually).
 - 3 states provide a different form of employer subsidy (contributions to a VEBA, fixed dollar subsidy for each year of service, percentage of member's salary).
 - 12 states provide either no coverage or unsubsidized coverage.

Percentage of Premium (16)	Dollar Contribution (9)	Other (3)	No coverage or No subsidy (12)
AK	AZ	IN	ID
CA	AR	ND	IA
IL	CO	PA	MN
LA	DE		MS
ME	FL		MT
MD	KY		NE
MI	OK		NV
MO	OR		SD
NH	SC		WA
NJ			WV
NY			WI
NC			WY
OH			
RI			
TX			
VT			

1. Based on recent research of state plans. See appendix for full list of sources.

Retiree Surviving Spouse Coverage

- Spouses of retirees generally receive their coverage in a family plan, thereby receiving the same employer contribution rate as the retiree.
- For the state:
 - Employer contributions for retirees and their spouses range from 80-90%, depending on when the employee retired.
 - Surviving spouses of retirees receive a 90% employer contribution.
 - Surviving spouses who remarry become ineligible for coverage.
 - Former or legally separated spouses who become survivors are not eligible for coverage.
- For municipalities:
 - A municipality that accepts Chapter 32B is required to allow an active employee to continue coverage upon retirement but does not have to pay any percentage of the premium cost unless it affirmatively votes to do so.
 - A survey of contribution rates in 191 municipalities and districts, provided by the Mass Retirees, found:
 - 19 municipalities (10%) provide a higher level contribution to retirees and their spouses than to surviving spouses:
 - 8 provide no employer contribution to surviving spouses (Barnstable, Boxford, Chilmark, Dalton, Holden, Holliston, Wilbraham, and Topsfield).
 - 8 provide a 50% contribution to surviving spouses.
 - 3 provide a contribution above 50% (51%, 60%, and 68%) to surviving spouses.

Part-Time Policies

- Using data from the Massachusetts Taxpayers Foundation and PERAC, ANF classified the part-time policies of 81 municipal plans.
 - 2 generally do not give credit for part-time work.
 - 24 pro-rate part-time work.
 - 55 give full-time credit for part-time service to employees who work part-time throughout their careers.
 - In 39 of these municipalities, employees must work either 20 hours per week or more than 20 hours to receive full-time credit.
 - In 6 of these municipalities, employees must work at least 24, 25, or 30 hours per week to receive full-time credit.
 - At least 33 of these municipalities pro-rate part-time work for employees that have worked both full-time and part-time.

VEBA

- A voluntary employee's beneficiary association (VEBA) is a tax-exempt organization that can be used to provide for the payment of life, sick, accident, or other benefits to its members, as well as their spouses and dependents.¹
- A VEBA must be a voluntary association of employees or former employees with an employment-related common bond. While both employers and employees can establish VEBAs, the VEBA must be controlled by members or by an independent trust or trustees, at least some of whom are designated by members.²
- Employer contributions to a VEBA, earnings on the funds assets, and distributions used to pay for qualified benefits are not taxed. Other VEBA tax advantages are available only to unionized workers:³
 - There are limits on the amount of contributions that non-union employers can make.
 - Contributions from non-union employees are after-tax.
- VEBAs can be established as “comingled trusts,” which state and municipal governments can use to fund traditional retiree health benefits or to provide a fixed dollar amount towards the cost of qualified benefits.⁴
- Alternatively, VEBAs can be implemented as individual participant accounts similar to a 401(k). Retirees can use VEBAs to purchase individual health insurance or to defray the cost of group insurance premiums.
- In some states, employers deposit employees' unused sick or vacation leave at the time of retirement into VEBA accounts.

1. http://www.irs.gov/irm/part7/irm_07-025-009.html

2. <http://www.kff.org/medicare/upload/7865.pdf>

3. http://www.law.harvard.edu/programs/lwp/occasionalpapers_Ap9_fin2.pdf

4. http://www.franczek.com/media/publication/6_IFEBPArticle.pdf

VEBA (cont.)

- In Indiana, a VEBA is used to fund individual accounts established as a health reimbursement arrangement (HRA).¹
 - The HRA allows the state to reimburse eligible retirees, their spouses, and their dependents for qualifying medical expenses on a tax-exempt basis.
 - The state funds the HRA by providing a fixed dollar credit to each full-time employee based on their age. Credits range from \$500 annually for employees under 30 to \$1,400 for those 55 or older. If an employee has at least 15 years of state service (10 years for an elected or appointed officer), the state provides an additional \$1,000 contribution for each year of service.
 - Pending IRS approval, the state will require retiring state employees to convert a maximum of 30 days of unused accrued vacation leave to a pre-tax monetary contribution.
- Washington State also uses a VEBA to offer an HRA to former employees of participating school districts, community and technical colleges, state agencies, and higher education institutions.²
 - Funding sources vary by employer and include unused sick, vacation, or personal leave cashed out annually or at retirement; mandatory employee contributions; and all or part of future pay raises or cost-of living allowances.

1. <http://www.in.gov/sba/2514.htm>

2. <http://www.veba.org/>

- See attached presentation from Aon Hewitt.

Appendix: Additional Sources

Boston College Center for Retirement Research report

Final Report of the Special Commission to Study the Massachusetts Contributory Retirement Systems

Center for State and Local Government Excellence report

Pew State Retiree Benefits Fact Sheets

Center on Budget and Policy Priorities report

The State Employees' Health Insurance Plan (Alabama)

Employees' Retirement System Member Handbook (Alabama)

Alaska Department of Administration Retirement and Benefits website

Alaska Division of Retirement and Benefits document

Connecticut State Employees Retirement System Tier III Summary Plan Description

OLR Research Report (Connecticut)

State of Delaware State Employee Benefit Committee Group Health Insurance Plan document

Office of Pensions (Delaware) presentation

Georgia Department of Community Health retiree health benefits plan document

Employees Retirement System of Georgia Retirement FAQ

Illinois State Employees Retirement System Tier 2 website

Illinois State Employees Retirement System Tier 2 Insurance Frequently Asked Questions

State Employees Retirement System of Illinois Tier 2 brochure

Maine Office of Fiscal and Program Review Summary of 2012-2013 Biennial Budget Bills as Enacted

Maryland Health Benefits Guide

Appendix: Additional Sources

Maryland State Retirement and Pension System Benefits Handbook

Michigan Office of Retirement Services website

Michigan Civil Service Commission website

New Hampshire Retirement System website

State of New Hampshire Division of Personnel retiree health FAQ document

New Jersey Division of Pension and Benefits publication

New Jersey Division of Pension and Benefits Summary Program Description

New Mexico Retiree Health Care Authority website

Public Employees Retirement Association of New Mexico website

Ohio PERS website

Pennsylvania SERS website

State of Rhode Island Office of Employee Benefits website

South Carolina PEBA Employee Insurance Program website

Employee Retirement System of Texas New Employees Benefits Guide

Employee Retirement System of Texas website

Employee Retirement System of Texas Planning Your Retirement book

Texas legislative summaries

CalPERS Health Program Guide

Hawaii Retirement Benefits Book

Louisiana Office of Group Benefits website

Appendix: Additional Sources

Maine summary of health insurance changes in budget

Missouri Consolidated Health Care Plan website

New Mexico Retiree Healthcare Authority rate sheet

North Carolina retirement benefits book

Ohio PERS glossary

Kentucky non-Medicare retirees Open Enrollment book

Tennessee state and higher education retiree health premium sheet

Connecticut Office of the State Comptroller Retirement Services Division

Connecticut SEBAC Agreement

Indiana retiree health benefits FAQ

Arizona retiree health insurance enrollment guide

Colorado PERA benefits book

MyFRS website

Oklahoma Public Employees Retirement System website

Arkansas non-Medicare retirees rate sheet

PERS Health Insurance Program document (Oregon)

South Carolina PEBA website

South Carolina PEBA premium sheets

Idaho Office of Group Insurance website

Iowa Department of Administrative Services website

Appendix: Additional Sources

Minnesota retiree Open Enrollment summary

Mississippi State and School Employees' Life and Health Plan

State of Montana Employee Benefits Summary Plan Document

Nebraska COBRA and retiree enrollment guide

Nevada Retiree Enrollment Guide

Governing.com

Wisconsin Department of Employee Trust Funds Group Health Insurance book